TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Update on Federal Legislation | ITEM NUMBER: 8b

ATTACHMENT(S): 1

ACTION: X | DATE OF MEETING: July 9, 1998

INFORMATION: ___ | PRESENTER: Ms. DuCray-Morrill

Attached is a comprehensive report from Hogan & Hartson on issues at the federal level. Ms. DuCray-Morrill will provide a verbal presentation at the meeting.

MEMORANDUM FOR THE CALIFORNIA STATE TEACHERS'RETIREMENT SYSTEM

Washington Monthly Report

Mandatory Social Security

The House Ways and Means Social Security Subcommittee finally held on May 21 its long-awaited hearing on mandatory Social Security coverage for all newly-hired State and local government workers. The hearing also included a panel of employee group representatives pressing for relief on the so-called "offset" issue under which a State and local retiree or spouse faces a reduction in Social Security benefits by reason of also receiving a State or local (or Federal) government pension.

Testifying on behalf of the State and local government community on the mandatory Social Security issue by invitation from the Subcommittee were: Bob Scott, Executive Director of the Colorado Public Employees' Retirement Association, testifying on behalf of the Coalition to Preserve Retirement Security (the former OPPOSE group renamed); Richard Schumacher, Executive Director of the Ohio public employees plan; Martin Pfeifer, a sergeant with the Washington, DC police department testifying on behalf of the Fraternal Order of Police; Tom Lussier, Executive Director of the Massachusetts teachers' plan; and George Pyne, Executive Officer of the Nevada public employees plan. The invited witnesses tended to correlate with the States of Members of the Subcommittee.

Members of the Subcommittee who were present at various times during the hearing included: Chairman Jim Bunning (R-Ky.) who chaired the entire hearing; Reps. J.D. Hayworth (R-Ariz.), John Ensign (R-Nev.), Rob Portman (R-Ohio), Mac Collins (R-Ga.), and Kenny Hulshof (R-Mo.); and Reps. Barbara Kennelly (D-Conn.), Richard Neal (D-Mass.), and Xavier Becerra (D-Los Angeles).

The hearing was concluded in about two hours and was interrupted several times for House Floor votes, with relatively limited time for questioning after the witnesses had completed reading their statements.

At the hearing, the U.S. General Accounting Office provided the results of its long-awaited study of the impact of mandatory Social Security coverage upon the solvency of the Social Security trust fund and State and local government employers, employees, and retirement plans (discussed in more detail below).

We worked with STRS staff to prepare a written statement that was filed for the hearing record. (A copy is attached for reference. Complete copies of all of the witnesses' statements have been provided to STRS staff.) We felt it very important to rebut the central thrust of the GAO study -- that "fairness" requires that Social Security have universal participation in which the costs are borne by all workers, including new State and local government workers. Accordingly, much of the focus of the STRS statement is to provide rebuttal to the GAO testimony.

The GAO testimony began by repeating an assertion now apparently embedded in the fabric of the Social Security debate that mandatory coverage would reduce the long-term deficit of the Social Security trust fund by 10 percent and in effect would extend the trust's period of solvency by a (mere) two years, from the year 2032 to 2034. GAO at least conceded that the Federal revenue gain did not suffice as a policy rationale for mandating State and local coverage and was forced to search for an appropriate policy justification. GAO proffered a rationale under the rubric of "fairness": that Social Security effectively constitutes a social welfare system which all workers in society should bear the burden of funding and that it is "unfair" for State and local governments and workers to avoid their relative share of this burden by not participating.

STRS's statement seeks to counter the "fairness" argument by pointing out that:

- The asserted rationale of equitably sharing the burden of Social Security as a social welfare program does not ring true as applied to State and local governments already struggling with the cost burdens of Medicaid, welfare, and other social safety net responsibilities which the Federal government has passed down to the States.

- Mandatory coverage threatens a significant payroll cost increase for State and local governments, which would have only two responses available to such an additional cost burden coming from the Federal government -- raising taxes or cutting spending on other essential government services.

- The Federal government would be seeking to carry out its commitment to participants in the Social Security system by forcing the State and local governments to cast aside the commitment they have made to their workforce and the participants in their retirement plans -- all to solve a Federal problem that these State and local governments had no hand in creating.

- States like California -- which has prefunded the STRS teacher retirement program to pay out almost $3 billion in benefits each year -- would be asked to cast aside these decades of successfully providing retirement benefits to generations of workers in order to force the future membership into a pay-as-you-go Social Security system that will provide reduced benefits at higher cost.

- State and local governments would lose the ability to tailor benefits to the unique work histories of the range of occupations necessary for diverse State and local services, giving way to the "one-size-fits-all" Social Security system as well as losing the flexibility to manage retirement costs directly, with such costs now largely being thrust upon State and local governments by the Federal government.

- The new State and local government workers being mandated into Social Security would be expected to receive less in Social Security benefits than they contribute; somehow the "fairness" rationale had failed to surface in the past when the situation was reversed.

- It is inequitable to mandate nonparticipating State and local governments into Social Security at this late point since the entering generation of State and local employees and their employers would be required to contribute at a high rate of tax to pay benefits for a prior generation of workers, none of whom worked for the State and local governments which are now being required to shoulder the burden.

The STRS testimony also provides a specific discussion of the impact of mandatory coverage on STRS, the employers, current participants and retirees, and new hires. GAO's testimony did acknowledge -- although not in as much as detail as one would have wished -- that mandatory coverage would increase retirement costs in order to maintain the current level of benefits for new hires and that if it were necessary instead to maintain level spending on retirement, retirement benefits for new State and local workers would have to be cut.

The policy debate now having been joined over mandatory coverage, the focus shifts over the next 6 to 9 months to establishing and mobilizing a strong grassroots network of State and local government groups, employers, and employees in key States, as well as the national organizations of the State and local government group. The near term objective will be to heighten the awareness of these potential grassroots allies as to the real nature of the mandatory coverage threat -- this is not just one more of the "dead-on-arrival" budget proposals of past Administrations. It will be difficult to get Congress's attention until the budget, appropriations, and tax legislation are done, which may not be until late Summer or early Fall. However, the grassroots network needs to be geared up in time for the Fall elections.

We will be coordinating with the coalition and keep you informed of developments.

Elk Hills Compensation

The Congressional efforts to secure the first $36 million of compensation for STRS under the Elk Hills settlement took a major step forward, due in large part to the hard work of our long-time champion Rep. Bill Thomas (R-Bakersfield).

In seeking the necessary Congressional appropriation for this first $36 million installment, we have been struggling to overcome the strictures posed by the budget spending caps that were enacted in the year following the Elk Hills settlement. These budget caps are beginning to really bite on spending levels for current programs. As described in earlier Monthly Reports, even though the $324 million for payment of the State's compensation has been collected from the purchaser of Elk Hills and is being held in an escrow account specifically for the purpose of paying the State, tapping that escrow account has been scored for budget purposes as new spending. Accordingly, the Elk Hills compensation payment must compete within these tight spending caps with ongoing programs under the Interior Appropriations Subcommittee's jurisdiction to which Subcommittee Members have greater allegiance.

Rep. Thomas has been working very hard in discussions with House Appropriations Committee Chairman Bob Livingston (R-La.) and Interior Appropriations Subcommittee Chairman Ralph Regula (R-Ohio) as well as the senior staff of the Committee to seek a way out of this dilemma. In addition, we have had a series of discussions with Subcommittee Chairman Regula, in addition to generating the letter of support from the entire California Congressional delegation.

While all of this grappling was going on over the appropriation, happily, the full House was considering the Defense Authorization bill for fiscal year 1999. It was the Defense Authorization measure in fiscal year 1996 that had directed the sale of Elk Hills and mapped out the process for settling California's claim and rendering compensation, including the requirement that the settlement funds be subject to an annual appropriation. We coordinated with Rep. Thomas who, demonstrating his peerless determination, took to the House Floor and began buttonholing key Members of the House Leadership and the House National Security Committee as the House wound up its consideration of the Defense Authorization measure.

Mr. Thomas's efforts continued vigorously as debate on the Defense bill crept into the late evening. Suddenly, an amendment by Mr. Thomas became in order and, just as quickly, was agreed to without objection.

The appropriation requirement had been stricken from the statute.

A copy of Mr. Thomas's amendment and the brief House Floor discussion is attached for reference. The Defense Authorization bill was then adopted by the House.

The Senate version of the Defense Authorization bill has been reported out by the Senate Armed Services Committee and will be considered by the full Senate shortly. We are cautiously assessing whether a comparable amendment is politically feasible on the Senate Floor. Rather than risking being voted down in the Senate, it may prove more desirable to wait until the House-Senate Conference that will meld the House and Senate versions and there to seek to hold the House provision in Conference.

Tobacco Legislation

The Senate GOP Leadership, in a series of parliamentary maneuvers on June 18, effectively killed the broad-ranging tobacco legislation in the Senate -- at least for now and probably for the remainder of the session.

The Senate voted to recommit the legislation to the Senate Commerce Committee whose Chairman Sen. John McCain (R-Ariz.), the bill's author, indicated that he was unlikely to make efforts to reshape the legislation so that it could be reconsidered this session.

With the fast-waning legislative calendar and the need to enact the 13 appropriations bills before the October 1 start of the new fiscal year as well as to consider the tax cut legislation being sought by Congressional Republicans, the prospects seem slim for renewed consideration of comprehensive tobacco legislation this session. Senate GOP Leaders talked in terms of possible later consideration of a more narrowly-focused measure targeted at youth smoking. However, it remains to be seen whether such talk was merely part of a face-saving "exit strategy" from the high profile debate over the tobacco legislation.

At this juncture, with the looming Fall elections and GOP unease about its slim majority in the House of Representatives, the way ahead on tobacco legislation will depend in significant part on the public's reaction to the derailing of the tobacco legislation. Senate Democratic Leaders quickly pounced on the GOP tobacco vote as a campaign issue and have threatened to seek to add the tobacco legislation, or parts of it, to appropriations and other "must pass" legislation to be considered by the Senate in the coming weeks. If Democrats begin scoring major political points with voters on the issue, GOP Leaders could be forced to return to the tobacco issue in some form in the Senate.

On the House side, there was great relief in the GOP ranks that comprehensive tobacco legislation would not be coming over from the Senate. The House GOP Leadership has been more strongly opposed to any significant tobacco legislation, talking instead of a possible narrow bill targeted at youth smoking.

At the end of the day, narrow legislation making a regulatory effort (as opposed to a tax-driven price increase effort) to address the concern over youth smoking ultimately may emerge in an effort to insulate the GOP from attack during the Fall campaigns. Beyond that, it seems difficult to predict with any degree of certainty -- until public reaction is gauged -- whether there will be renewed efforts at broader legislation.

Securities Litigation Reform Legislation

Legislation to curtail the use of State law and State courts for class action securities fraud claims involving publicly-traded companies continues to move toward the enactment.

As reported last month, the Senate already has adopted the legislation (S. 1260), after adding an amendment to preserve the right of State and local governments and State and local pension plans to bring a securities fraud claim under State law in their own right or as a member of a class of State and local governments or government pension plans.

The counterpart legislation (H.R. 1689) is now actively moving through the House. The House Commerce Subcommittee on Finance and Hazardous Materials reported out the measure by a 21-4 vote, sending the bill to the full Commerce Committee for a vote on June 24. The Subcommittee added an amendment somewhat similar to the Senate amendment preserving the rights of State and local governments and plans to bring State law actions provided the government or plan has authorized its status as a named plaintiff in the action.

On a related front, the House Judiciary Committee on Courts and Intellectual Property is moving forward on legislation to ease the process by which class action suits in general may be removed from State courts to Federal courts. The measure would permit removal to Federal court if at least one plaintiff and one defendant live in different States and if any plaintiff or defendant requests such removal. The measure would apply to all pending actions, as well as to future cases. Trial lawyer groups are mobilizing in opposition to the measure.

National Summit on Retirement Savings

The National Summit on Retirement Savings was convened in Washington on June 3-5 under the banner of promoting retirement savings. President Clinton, members of his Cabinet, and Congressional leaders from both parties spoke at the summit general sessions, and summit delegates convened in breakout sessions to discuss ideas. Delegates included representatives of State and local plan groups.

House Speaker Newt Gingrich (R-Ga.) confirmed earlier reports that he has fallen under the sway of the vendors in the DC-DB debate by praising efforts in California and other States to enact legislation requiring that State and local government employees be given the option to participate in a defined contribution plan as the principal retirement plan. Speaker Gingrich specifically cited the recent shift to a defined contribution approach in Michigan and urged other States to move in the defined contribution direction. Labor groups rose in defense of defined benefit plans as the mainstay for retirement.

The summit proceedings are to be compiled in a forthcoming report.

John S. Stanton

June 18, 1998

Attachments

WRITTEN STATEMENT

OF

JENNIFER DuCRAY-MORRILL

DEPUTY CHIEF EXECUTIVE OFFICER - GOVERNMENT AFFAIRS & PROGRAM DEVELOPMENT

STATE TEACHERS' RETIREMENT SYSTEM

STATE OF CALIFORNIA

before the

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE HOUSE COMMITTEE ON WAYS AND MEANS

REGARDING

MANDATORY SOCIAL SECURITY COVERAGE OF STATE AND LOCAL GOVERNMENT EMPLOYEES

May 21, 1998

My name is Jennifer DuCray-Morrill. I am Deputy Chief Executive Officer - Government Affairs & Program Development of the California State Teachers' Retirement System (CalSTRS). CalSTRS has 518,000 active and retired teacher members and currently pays retirement, disability, and survivors' benefits to some 154,000 recipients. CalSTRS pays out $238 million each month in retirement, disability, and survivors' benefits, totaling $2.9 billion annually.

We very much appreciate the opportunity to present our views to the Subcommittee on the issue of imposing mandatory Social Security coverage on newly-hired State and local government workers.

Before describing the specific impact that mandatory coverage would have on CalSTRS, its active members, and its retirees, I would like to respond to a number of points raised at the hearing, particularly by the General Accounting Office (GAO) in its testimony.

There can be no serious question that the true driving force behind proposals to impose mandatory coverage of new State and local government workers is a new source of revenue for the Federal government. The Federal government would be requiring State and local governments to bear a significant additional cost burden in order to help bolster the solvency of the Social Security trust fund.

However, as the GAO recognizes in its testimony, while new Federal revenue may be the driving force behind mandatory State and local coverage proposals, revenue is not itself an appropriate justification for imposing mandatory coverage. As the GAO notes: "While Social Security's solvency problems have triggered an analysis of the impact of mandatory coverage on [Social Security] program revenues and expenditures, the inclusion of such coverage in a comprehensive reform package would need to be grounded in other considerations." (U.S. General Accounting Office, "Mandating Coverage for State and Local Employees", Testimony before the Subcommittee on Social Security, House Committee on Ways and Means (GAO/T-HEHS-98-127) (May 21, 1998), at p. 4).

In searching for an appropriate policy justification, GAO points to the 1994-96 Social Security Advisory Council statement that mandatory coverage is "basically 'an issue of fairness.'" (*Id.*, at pp. 4-5). GAO then quotes the Advisory Council report to the effect that "'an effective Social Security program helps to reduce public costs for relief and assistance, which, in turn, means lower general taxes. There is an element of unfairness in a situation where practically all contribute to Social Security, while a few benefit both directly and indirectly but are excused from contributing to the program.'" (*Id*., at p. 5).

It is important to examine in detail just how this "fairness" consideration balances out.

As a threshold matter, the Advisory Council's asserted rationale of equitably sharing the burden of Social Security as a social welfare program does not ring true as applied to State and local governments already struggling with the cost burdens of Medicaid, welfare, and other social safety net responsibilities which the Federal government has passed down to the States. Mandatory coverage threatens a significant payroll cost increase for State and local governments. It seems quite difficult to justify this additional cost burden on the ground that State and local governments -- and State and local taxpayers -- are not now bearing their fair share of social safety net responsibilities. Moreover, State and local governments have only two responses available to such an additional cost burden coming from the Federal government -- raising taxes or cutting spending on other essential government services.

More fundamentally, by imposing mandatory coverage the Federal government would be seeking to carry out its commitment to the participants in the Social Security system by forcing State and local governments to cast aside the commitment they have made to their workforce and the participants in their retirement systems. State and local governments would be asked to largely dismantle for the future their successful retirement systems that have served millions of participants for decades, in order to solve a Federal problem that these State and local governments had no hand in creating.

States like California -- which has pre-funded the CalSTRS teacher retirement program to pay out almost $3 billion in benefits each year -- would be asked to cast aside these decades of successfully providing retirement benefits to generations of workers, in order to force the future membership into a pay-as-you-go Social Security system that will provide these State and local government employees with reduced benefits at higher cost to State and local governments. It is not without clear irony that, at the same time mandatory coverage proposals are being discussed that would force States to largely dismantle successful pre-funded retirement systems in order to help pay for the inadequacies of the pay-as-you-go Social Security system, State and local government retirement systems are being examined by GAO and others as a model for how a pre-funded retirement plan can be achieved and managed in the government context.

If mandatory coverage is imposed, State and local governments would lose flexibility to tailor retirement benefits to the unique work histories of the broad range of occupations necessary for the diverse State and local services, giving way to the "one-size-fits-all" approach of Social Security. State and local governments would lose the flexibility to manage retirement costs directly, with such costs now largely being thrust upon them from the Federal government.

On the employee side, while the GAO testimony notes that mandatory coverage will "increase participation in an important national program," the testimony produces no conclusive evidence that overall retirement benefits of new State and local government workers will be sustained, let alone improved, under any reasonable cost scenario for State and local governments. Indeed, as described below, actuarial studies undertaken for our system show that the current CalSTRS plan produces a much greater benefit than a plan coordinated with Social Security for the same level of contribution. Certainly the 364,000 active members of CalSTRS have not been clamoring to shift into Social Security.

This should not be surprising since the new State and local government workers mandated into Social Security would be expected to receive less in Social Security benefits than they contribute. The solvency problem facing the Social Security trust fund is a later-term problem when the Baby Boomers begin to retire en masse. The retirements shortly afterward by the new State and local workers mandated into Social Security will only exacerbate the problem unless these State and local workers forced into Social Security in fact will receive less in benefits than they contributed. Somehow, the "fairness" rationale failed to surface vis-à-vis State and local government workers in the past when the situation was reversed and participants drew out more in benefits than they had contributed.

Social Security has been in place for some 63 years as a "pay-as-you-go" system. Employers and employees in one generation have paid employment taxes which are used to pay current benefits and, in turn, a later generation of employers and employees have paid employment taxes which are used to pay that preceding generation's employees' benefits. Consequently, there is a certain rough justice as to current employers and employees participating in the Social Security system.

It is inequitable to mandate nonparticipating State and local governments into Social Security at this late point. This legislation is asking the entering generation of State and local employees, and the State and local governments which employ them, to contribute at a high rate of tax to pay benefits for a prior generation of workers, none of whom worked for the State and local governments which are being mandated into Social Security. Compared to all of the current employers in the Social Security system, the upshot of mandating the non-participating State and local governments into Social Security is to provide all current benefits to someone else while imposing the current burdens on the mandated State and local governments and their employees.

It might have been "fair" to mandate State and local governments at the start -- everyone would be treated equally, but it is unfair to wait until late in the game and then mandate coverage.

State and local governments have designed their retirement plans in reliance upon their exclusion from mandatory Social Security coverage. Benefits have been structured and trusts funded on this basis. State and local tax rates have been established which provide adequate sums to fund these retirement benefits along with the other expenses of State and local governments.

There is, understandably, a great deal of reluctance on the part of voters to increase State and local taxes. All parties, including those favoring mandating Social Security coverage for State and local government employees, concede that if coverage is mandated, benefit costs will increase substantially if State and local governments maintain the current level of benefits, even taking Social Security benefits into account. The alternative, and more likely scenario, is that benefits will be cut in order to maintain the current levels of taxation. That is unfair to State and local government employees.

This burden will be particularly hard on teachers who are disproportionately the group affected by mandatory Social Security coverage. At a time when schools, particularly schools in California, are straining to improve educational performance in the face of stringent budgetary restrictions, to add the cost of mandatory Social Security coverage would be a devastating blow.

In summary, Mr. Chairman, once "fairness" is considered in all of its aspects -- and not just those that favor the Federal side -- it becomes quite clear that "fairness" provides no true rationale for mandating new State and local government workers into Social Security.

Let me briefly outline the specific impacts that mandatory coverage would have on CalSTRS and its 518,000 active and retired participants.

- **CalSTRS and Other Existing State and Local Retirement Systems in States That Do Not Participate in Social Security Are Successful and Should Not Be Disrupted**

  * State and local governments do an excellent job managing retirement plans and providing good benefits for their employees.

    -- The California State Teachers' Retirement System (CalSTRS) pays out $238 million each month in retirement, disability, and survivors' benefits, for total benefits of $2.9 billion annually. An average CalSTRS retiree's annual benefit at retirement is approximately $18,000.

  * State and local government plans are more soundly funded than Social Security. State and local plans are sound because the necessary employer and employee contributions have been actuarially determined and put into trust funds and invested in accordance with sound portfolio management principles. State and local plans invest in a range of securities providing a greater return than the government bonds held by the Social Security "trust fund".

    -- CalSTRS has a strong funding level, with assets representing 97% of accrued liabilities.

    -- CalSTRS retirees on average receive retirement benefits for 26 years. Two years of that payout represent the employee contributions, two years represent the employer contributions, and 22 years of that payout are funded by investment earnings.

    -- CalSTRS's assets totaled more than 22 times benefits paid in 1995-96. By contrast, Social Security's assets were less than 2 times annual benefits paid, providing much less opportunity for investment growth.

  * By operating their own retirement systems, State and local governments are able to tailor benefits to the work histories of the uniquely broad range of occupations of State and local workers.

    -- Police and fire personnel retire earlier because of the physical demands of the job. Judges enter late in their careers and serve for a limited period. Teachers often have long, steady careers. The "one-size-fits-all" approach of Social

Security determined in Washington provides no such flexibility.

-- State and local government employers are able to manage retirement benefits and costs directly -- rather than having costs thrust upon them by the Federal government -- and employee groups have input on benefits through the bargaining and State legislative processes.

* CalSTRS strongly believes that all of its teacher participants should receive comparable benefits for the same service and pay. Mandatory Social Security coverage would disrupt that equity because new hires likely would receive less in benefits under a plan coordinated with Social Security than current CalSTRS members receive under the existing plan.

- **Mandatory Social Security Coverage for All State and Local New Hires Will Have a Harsh Impact on New Employees, Current Participants, State and Local Employers, and the States and Local Retirement Plans Themselves**

  * **Harsh cost impact or benefit cuts in the case of new hires**

  -- If added to current pension costs, the 12.4% Social Security payroll tax cost for new teachers would create a major financial burden for California public schools. The average additional annual cost for a new hire would be at least $1,600 each for the employer and the employee.

  -- The additional Social Security payroll tax burden approaches the normal cost of the current CalSTRS retirement plan (15.79%), leaving little room for the design of a retirement benefit to supplement Social Security for the new hires except in the unlikely event that new State and local funding can be found.

  -- State and local retirement plans produce substantially higher investment returns than Social Security. If Social Security is substituted for a large portion of the State and local retirement plan benefit, contributions to the State and local plan will have to increase to fund the same level of benefits. In California actuarial studies indicate that it would cost an additional 3% to 6% of payroll to fund a supplemental retirement tier that when combined with Social Security equates to the retirement benefits currently provided by CalSTRS.

  -- Actuarial studies show that the current CalSTRS plan produces a much greater benefit than a plan coordinated with Social Security for the same level of contribution, for essentially all combinations of age and service.

  -- Mandatory Social Security coverage would substitute an unfunded benefit under the pay-as-you-go Social Security system for the funded retirement benefit that the new State or local worker would have received under the State or local government retirement system.

  -- Given the fiscal and political difficulties of increasing State and local government retirement costs, it seems likely that State and local employers would respond to mandatory coverage for new hires by cutting benefits under the State and local retirement plan rather than increasing contribution costs.

  * **Adverse impact on current participants and existing State and local government plans**

  -- As the GAO testimony notes, “Mandatory coverage and the resulting changes to benefit levels for newly hired employees are likely to result in reduced contributions to the current pension plan. The impact of reduced contributions on plan finances would depend on the actuarial method and assumptions used by each plan, the adequacy of current plan funding, and other factors.” (p. 10). Even though CalSTRS is currently well-funded, in the future the liabilities for the closed group of current participants could exceed assets, creating an unfunded liability. A substantial reduction in the contributions from new hires would have an adverse impact on the pay-down of any unfunded liability of the plan.

- **Dubious Benefit for the Social Security Trust Fund Unless State and Local Workers Will Receive Less in Social Security Benefits Than They Contribute**

  * Mandating Social Security coverage for State and local new hires would provide a short-term cash flow into the Social Security trust fund. But the Social Security trust fund has no short-term funding or liquidity problem.

  * The solvency problem facing the Social Security fund is a later-term problem when the Baby Boomers begin to retire en masse. The retirements shortly afterward by the new State and local workers mandated into Social Security will only exacerbate the problem unless these State and local workers forced into Social Security in fact will receive less in benefits than they contributed.

  * The payroll tax contributions of the State and local workers mandated into Social Security will merely be invested in Federal debt, not growing investments, and hence there will be even greater dependence on the future taxing resolve of the Federal government when that debt must be cashed in to pay benefits.

CONCLUSION

Mr. Chairman, we would strongly urge you and the other Members of the Committee, in examining proposals for mandatory coverage of State and local government workers, to look beyond the siren call of short-term revenue and to consider the severe cost and dislocation that would be imposed on State and local governments and their retirement systems that have successfully funded retirement benefits for generations of workers in public service.

Thank you for the opportunity to present our views.

Supplemental Sheet

Jennifer DuCray-Morrill
Deputy Chief Executive Officer -
Governmental Affairs, Program Development Branch
State Teachers' Retirement System
State of California
7667 Folsom Boulevard
P.O. Box 15275
Sacramento, CA 95851-0275
916/229-3714
916/229-3704 (FAX)